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MEMORANDUM

TO: Cities, Towns, and Schools

FROM: Lori Rogers, CPA, CFE Director of Audit Services

RE: Property Taxes Reporting in GASB 34 Financial Statements-
Schools and other Governmental Entities

DATE: September 8, 2020

Dear Officials:

Please read the following regarding property tax reporting in GAAP financial statements. If you have any questions do not hesitate to contact us.

SUMMARY OF AUTHORITATIVE LITERATURE

GASB 34 provides how governmental financial statements should be presented. The Government Wide Financial statements are presented on a full accrual basis. The Governmental Fund Financial Statements are presented on a modified accrual basis. This informational memo addresses how property taxes levied and collected would be recognized as revenue and receivables for the compilation of financial statements.

Modified accrual basis:

- Revenue produced from any property tax assessment should be recognized in the fiscal period for which it was levied, provided the "available" criteria are met. Available means collected within the current period or will be collected within 60 days after the current period.
- Recognize assets (receivables) from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.
- When property taxes receivable are recognized, or when property taxes are collected in advance of the period for which they are levied, they should be recorded as a deferred inflow of resources and recognized as revenue in the period for which they are levied, subject to the "available" criterion.

Full accrual basis:

- Recognize revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied.
- Recognize assets (receivables) from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.
- Deferred inflows of resources associated with imposed nonexchange revenue transactions should be reported when resources are received or reported as a receivable before (a) the period for which property taxes are levied.

Applicable state statute

IC 6-1.1-17-16:

(a) The department of local government finance shall certify the tax rates and tax levies for all funds of political subdivisions subject to the department of local government finance's review.
...

(k) The department of local government finance is expressly directed to complete the duties assigned to it under this section as follows:

(1) Not later than December 31 of the year preceding that budget year, unless subdivision (2) applies.

(2) Not later than January 15 of the budget year if any of the following are true:

(A) A taxing unit in a county intends to issue debt after December 1 in the year preceding the budget year and has indicated its intent to issue debt after December 1 in the year preceding the budget year as specified in section 5 of this chapter.

(B) A taxing unit intends to file a shortfall appeal under [IC 6-1.1-18.5-16](#) and has indicated its intent to file a shortfall appeal as specified in section 5 of this chapter.

(C) The deadline for a city in the county to fix the budget, tax rate, and tax levy has been extended, in accordance with section 5.2 of this chapter, due to the executive's veto of the ordinance fixing the budget, tax rate, and tax levy. . . .

Facts about Indiana governmental units

- For schools the budget year is based on the calendar year whereas the fiscal period runs from July 1 to June 30.
- Governmental units other than schools typically have a calendar year fiscal period.
- The taxes levied either not later than December 31 of the year preceding that budget year or not later than January 15 of the budget year in certain circumstances are statutorily required to be paid on May 10 and November 10 of the budget year.

- Settlement (distribution from the County to the local taxing units) traditionally occurs within 51 days after May 10 and November 10.
- Local taxing units can request an advance distribution of the taxes to be settled on the next settlement date.

The following are examples demonstrating how revenue and receivables for property tax would be determined for schools and for other local governmental units on both a modified accrual and on a full accrual basis.

Application to Indiana schools - Modified accrual financial statements assuming:

1. The entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes; and
2. Beginning balances are zero.

Property taxes levied not later than January 15 of the budget year are recorded as a receivable at June 30 reduced by the amounts received prior to June 30 and an estimated allowance for uncollectible property taxes. The offset to this entry would be 1) revenue for that amount received after June 30 in accordance with the entity's policy of the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements; and 2) deferred inflows of resources for that amount not collected as of June 30 nor within the period of availability as defined by the school.

Collections within the fiscal year are posted to revenue taking into account any recognized in the prior fiscal year as they were available as defined by the entity's policy.

Example assuming the entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes:

- Property tax levy - \$14,800 as of December 31, 2019
- Allowance for doubtful accounts - \$1,700
- Collections distributed by County prior to June 30 - \$8,000
- Collections distributed by County within school's defined period of availability of 60 days after fiscal year end - \$200

End of fiscal year entry to recognize remaining property tax receivable and revenue within the period of availability:

Property tax receivable (net) (14,800-1,700-8,000)	5,100
Revenue	200
Deferred Inflow of Resources – unavailable revenue	4,900
Account balances at June 30 fiscal year end:	
Property Tax Receivable (net)	5,100
Revenue (8,000+200)	8,200
Deferred Inflow of Resources – unavailable revenue	4,900

Application to governmental units other than schools - Modified accrual financial statements assuming:

1. The entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes; and
2. Beginning balances are zero.

Property taxes levied not later than December 31, 20X1, are recorded as a receivable at December 31, 20X1, reduced by the amounts received prior to December 31, 20X1, and an estimated allowance for uncollectible property taxes. Offset would be Deferred Inflow of Resources to ensure proper revenue recognition in the period for which the taxes were levied.

As of December 31, 20X2, property taxes receivable would be:

1. Revenue for that amount received after December 31, 20X2, in accordance with the entity's policy of the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements; and
2. Deferred inflows of resources for that amount not collected as of December 31, nor within the period of availability as defined by the entity. Collections within the fiscal year are posted to revenue taking into account any recognized in the prior fiscal year as they were available as defined by the entity's policy.

Example assuming the entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes:

- Property tax levy - \$14,800 levied by December 31, 20X1
- Allowance for doubtful accounts - \$1,700
- Collections of January 1 to December 31, 20X2, distributed by County in 20X2 - \$8,000
- Collections distributed by County within entity's defined period of availability of 60 days after fiscal year end - \$200

End of fiscal year receivable recognition December 31, 20X1:	
Property tax receivable (net) (14,800-1,700-10)	13,090
Revenue	10
Deferred Inflow of Resources – unavailable revenue	13,100
Account balances at December 31, 20X1 fiscal year end:	
Property Tax Receivable	13,090
Revenue (for levy of December 31, 20X1)	0
Deferred Inflow of Resources – unavailable revenue	13,100

End of fiscal year receivable recognition December 31, 20X2, and revenue within period of availability:

Property tax receivable (net) (14,800-1,700-8,000)	5,100
Revenue	200
Deferred Inflows of Resources – unavailable revenue	4,900
Account balances at December 31, 20X2 fiscal year end:	
Property Tax Receivable	5,100
Revenue (8,000+200)	8,200
Deferred Inflow of Resources – unavailable revenue	4,900

Application to Indiana schools - Full accrual financial statements assuming:

1. The entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes; and
2. Beginning balances are zero.

Property taxes levied not later than January 15 of the budget year are recorded as a receivable at June 30 reduced by the amounts received prior to June 30 and an estimated allowance for uncollectible property taxes. Revenue recorded is equal to the amount levied less estimated allowance for uncollectible property taxes.

Example assuming the entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes:

- Property tax levy - \$14,800
- Allowance for doubtful accounts - \$1,700
- Collections prior to June 30 distributed by County - \$8,000

End of fiscal year to accrue receivable:	
Property tax receivable (net) (14,800-1,700-8,000)	5,100
Revenue	5,100

Account balances at June 30 fiscal year end:	
Property tax receivable	5,100
Revenue (14,800-1,700)	13,100

Application to governmental units other than schools – Full accrual assuming:

1. The entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes; and
2. Beginning balances are zero.

Property taxes levied not later than December 31, 20X1, are recorded as a receivable at December 31, 20X1, reduced by the amounts received prior to December 31, 20X1, and an estimated allowance for uncollectible property taxes. Offset would be Deferred Inflow of Resources to ensure proper revenue recognition in the period for which the taxes were levied.

As of December 31, 20X2, property taxes receivable would be:

1. Revenue for that amount received after December 31, 20X2, in accordance with the entity's policy of the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements; and
2. Deferred inflows of resources for that amount not collected as of December 31, nor within the period of availability as defined by the entity. Collections within the fiscal year are posted to revenue taking into account any recognized in the prior fiscal year as they were available as defined by the entity's policy.

Example assuming the entity maintains cash basis accounting records that are adjusted to create financial statements for reporting purposes:

- Property tax levy - \$14,800 levied by December 31, 20X1
- Allowance for doubtful accounts - \$1,700
- Collections prior January 1 to December 31 distributed by County - \$8,000
- Collections distributed by County within entity's defined period of availability of 60 days after fiscal year end - \$200

End of year receivable recognition December 31, 20X1:	
Property tax receivable (net) (14,800-1,700)	13,100
Deferred Inflow of Resources – unavailable revenue	13,100
Account balances at December 31, 20X1 fiscal year end:	
Property Tax Receivable	13,100
Deferred Inflow of Resources – unavailable revenue	13,100
End of year receivable recognition December 31, 20X2:	
Property tax receivable (net) (14,800-1,700-8,000)	5,100
Revenue	5,100
Account balances at December 31, 20X2 fiscal year end:	
Property Tax Receivable	5,100
Revenue (8,000+5,100)	13,100

Applicable Authoritative Literature

Modified accrual basis - Fund financial statements

Revenue Recognition

GASB Cod § P70.104:

"When a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was levied, provided the "available" criteria are met. *Available* means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Governments should disclose in their summary of significant accounting policies the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements. If, because of unusual circumstances, the facts justify a period greater than 60 days, the governmental unit should disclose the period being used and the facts that justify it. [NCGAI 3, ¶6 and ¶8; GASBS 38, ¶7; GASBI 5, ¶4]"

Receivable Recognition

GASB Cod § P70.105:

"Governments should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises generally is specified in the enabling legislation. Many governments refer to this date as the "lien date," even though a lien is not formally placed on the property at that date. Some governments, however, use a different term, such as the "assessment date." (For some governments, the enforceable legal claim does not arise until the period after the period for which the taxes are levied.

Those governments should recognize property taxes receivable in the same period that revenues are recognized in accordance with Section N50, paragraph .115.) [GASBS 33, ¶17]"

Recognition of a Deferred Inflow of Resources

GASB Cod § P70.107:

"When property taxes receivable are recognized, or when property taxes are collected in advance of the period for which they are levied, they should be recorded as a deferred inflow of resources and recognized as revenue in the period for which they are levied, subject to the "available" criterion in paragraph .104. [NCGAI 3, ¶7, as amended by GASBS 33, ¶18, and GASBS 65, ¶30]"

Full accrual basis – Government-wide financial statements

Receivable Recognition

GASB Cod. § N50.114:

"Governments should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises generally is specified in the enabling legislation. Many governments refer to this date as the "lien date," even though a lien is not formally placed on the property at that date. Some governments, however, use a different term, such as the "assessment date." (For some governments, the enforceable legal claim does not arise until the period after the period for which the taxes are levied.

Those governments should recognize property taxes receivable in the same period that revenues are recognized in accordance with paragraph .115.) [GASBS 33, ¶17]"

Revenue Recognition

.115 Governments should recognize revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized in the period when the resources are required to be used or when use is first permitted. Deferred inflows of resources associated with imposed nonexchange revenue transactions should be reported when resources are received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are either required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements. [GASBS 33, ¶18, as amended by GASBS 65, ¶9; GASBS 65, ¶9]

708-2 Q—Paragraph .115 of this section states that "governments should recognize revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied . . ." (subject to the availability criterion in governmental funds). An independent school district files a property tax levy. The levy is processed and collected by a county that has a different fiscal period. The levy is assessed on property owned during yet another fiscal period. What is the period for which the taxes are levied?

A—The laws and regulations governing the levy determine the period for which the taxes are levied.

That period will generally coincide with the budget or fiscal period of the entity initiating the levy. All governments subject to the same laws and regulations should use the same period. [GASBIG 2015-1, QZ.33.11]

Other Information

Example 7 in GASB Cod. N50: Property Tax with Early Collections

A city (recipient) through its council adopts a property tax levy ordinance that explicitly links the taxes to the appropriation ordinances for the fiscal year May 1, 20X1 through April 30, 20X2. State statutes indicate that the city's enforceable legal claim to the taxes arises on the lien date, defined as the January 1 preceding the start of the fiscal year for which the taxes are levied. Taxes are collected March 1, 20X1 or later.

This example illustrates the characteristics of imposed nonexchange revenues. (The tax is imposed on property ownership, which is not an exchange transaction.) The city should recognize property taxes receivable on January 1, 20X1 (the date that the enforceable legal claim arises), and it should recognize revenues over the period May 1, 20X1 through April 30, 20X2 (the period for which the tax is levied). (For the period from January 1, 20X1 until May 1, 20X1, the city should recognize a deferred inflow of resources for property taxes recognized as receivable or received.)

The GAAFR Book, ninth edition states the following about period of availability.

In highly unusual circumstances, the strict application of a government's normal availability period for a given revenue source might seriously distort revenue trends from one year to the next. Assume, for example, that a county routinely receives its portion of state-collected sales taxes for the last quarter of the fiscal period within its 60-day availability period, but that this particular year there was an administrative problem at the state level that delayed payments slightly beyond the 60-day cutoff. In such unusual circumstances, the government can recognize revenue based on its normal collection patterns, even if it means recognizing property tax revenues that become collectible more than 60 days beyond the end of the period. For this purpose, circumstances are considered to be unusual only if they are unlikely to recur for that particular government (thereby distorting revenue trends).